FRANKLIN TEMPLETON

October 2019

Templeton Global Macro—Four Pillars Bracing Against a World of Uncertainty

Global investors are now facing extraordinary economic, political and financial market conditions that risk sending the world into a perilous period. However, we see this as an opportunity to invest in potential hedges against these risks and to build an unconstrained portfolio that is truly uncorrelated to general market risk. Here are the Four Pillars of our strategy:

1. We're maintaining high liquidity through elevated cash balances, with a focus on highly liquid assets and appropriate risk-adjusted position weights.

Here's Why: The combination of very accommodative central bank policy combined with a more regulated banking system has amplified credit risk in the shadow banking system. There has been significant growth in US credit markets in areas of less transparency—private issuances with limited financial disclosure and diminished debt covenants. More than half of the high-yield US corporate bond market now comes from private placements, up from around 17% before the era of quantitative easing.[1] Additionally, the levered loan market has surpassed the size of the high-yield bond market, with around 80% of its securities having light-to-nonexistent covenants and no public financial disclosures.[2]

For every disciplined lender that passes on a non-disclosure deal, there are many more willing to step in and blindly assume the unknown risks. All of this can work as long as credit markets remain bullish, but as soon as credit conditions begin to turn, liquidity will come at an exorbitant cost.

2. We're holding long exposures to perceived safe-haven assets, including the Japanese yen, Norwegian krone and Swedish krona.

Here's Why: The potential for a geopolitical event appears higher than it has been in decades, given ongoing tensions among the major world powers. Additionally, massive deficit spending across the developed world has exhausted many of the resources to respond to a future financial or economic shock. In short, there is a risk the developed world has overextended itself on both fiscal and monetary fronts, leaving risk assets highly vulnerable to a financial market event.

3. We're maintaining negative duration exposure to the long end of the US Treasury yield curve.

Here's Why: We believe markets continue to overvalue longer-term US Treasuries. Negative real yields in the US Treasury market appear highly vulnerable to a potential rate shock given rising deficit spending and rising debt. Inflation risks also remain significantly underpriced in markets, given the exceptional tightness in the labor market. We think investors need to diversify against the rate risks loaded in across the asset classes.

4. We're risk-managing a select set of emerging market exposures that appear better positioned to handle trade disruptions and potential rate shocks.

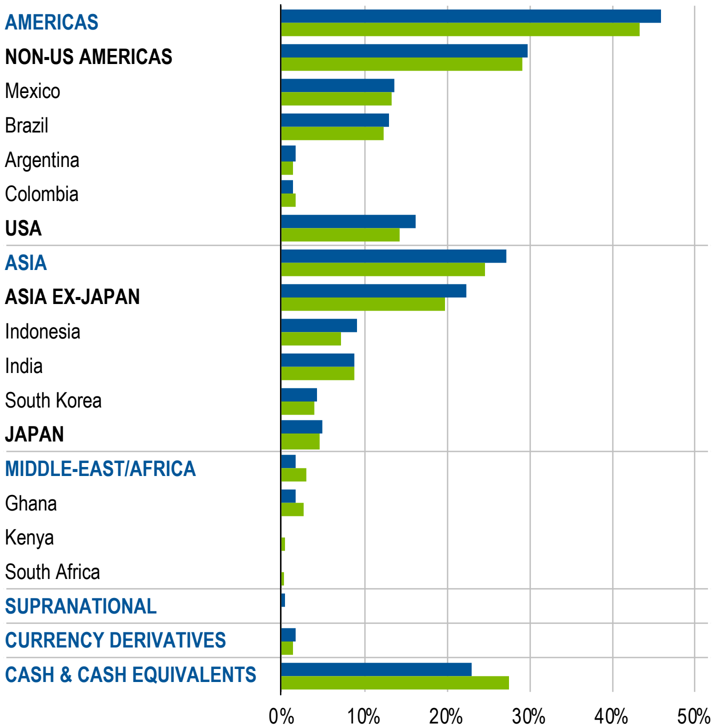
Here's Why: We continue to see value in specific emerging markets, but we have focused on sizing and hedging our positions for individual risks. We have generally been reducing the overall risk in the emerging market sleeves in our strategies while continuing to aim at isolating the specific alpha components through various hedges. For example, we've maintained exposures to local-currency bonds in India, but have fully hedged the Indian rupee and moderately reduced the years of duration in the position.

1. Source: Bloomberg Barclays. As of August 31, 2008, the size of the total US corporate high yield market was around US$677 billion, of which the US corporate high yield 144a market was around US$114 billion. As of August 31, 2019, the size of the total US corporate high yield market was around US$1,227 billion, of which the US corporate high yield 144a market was around US$659 billion. Rule 144a is a modification of the SEC regulation of privately placed securities, which enables them to be traded among qualified institutional buyers.
2. Source: Credit Suisse as of August 31, 2019.

Templeton Global Bond Fund and Templeton Global Total Return Fund
Portfolio Diversification as of September 30, 2019[3]

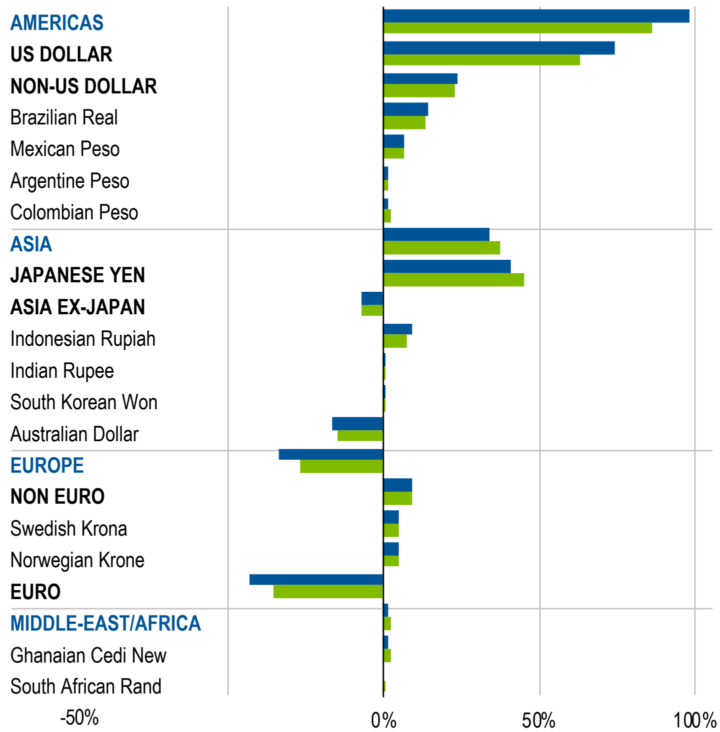
Geographic Allocation[4]

Market Value—Percent of Total



Currency Exposure[5]

Notional Exposure—Percent of Total



3. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.
4. Market value figures reflect the trading value of the investments. Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.
5. Notional exposure figures are intended to estimate the portfolio's exposure, including any hedged or increased exposure through certain derivatives held in the portfolio (or their underlying reference assets). Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

IMPORTANT DISCLOSURES

All investments involve risks, including possible loss of principal. Derivatives, including currency management strategies, involve costs and can create economic leverage in the portfolio which may result in significant volatility and cause the fund to participate in losses on an amount that exceeds the fund's initial investment. The fund may not achieve the anticipated benefits, and may realize losses when a counterparty fails to perform as promised. The markets for particular securities or types of securities are or may become relatively illiquid. Reduced liquidity will have an adverse impact on the security's value and on the fund's ability to sell such securities when necessary to meet the fund's liquidity needs or in response to a specific market event. Foreign securities involve special risks, including currency fluctuations (which may be significant over the short term) and economic and political uncertainties; investments in developing markets involve heightened risks related to the same factors. Sovereign debt securities are subject to various risks in addition to those relating to debt securities and foreign securities generally, including, but not limited to, the risk that a government entity may be unwilling or unable to pay interest and repay principal on its sovereign debt, or otherwise meet its obligations when due. Investments in lower-rated bonds include higher risk of default and loss of principal. Bond prices generally move in the opposite direction of interest rates. As the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. These and other risks are discussed in the fund's prospectus.

Your clients should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, call us at (800) DIAL BEN®/342-5236 or visit franklintempleton.com. Your clients should read the prospectus carefully before they invest or send money.

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